TRANSWESTERN

DISTRICT OF COLUMBIA INDUSTRIAL MARKET

Q3 2023

TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.4	4.7	↑	6.0	↓
NET ABSORPTION (THOUSANDS SF)	46.0	10.0	↑	(6.4)	↔
DIRECT VACANCY RATE	3.9%	4.1%	↓	5.5%	↓
DIRECT VACANT SF (MSF)	0.4	0.4	↓	0.5	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.0	↔
ASKING RENT, NNN (PSF)	$16.72	$15.17	↑	$14.70	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

INDUSTRIAL MARKET CONDITIONS STRONG IN Q3 2023

The District of Columbia industrial market was strong during the third quarter of 2023. Net absorption totaled 46,000 SF while the direct vacancy rate decreased 50 basis points to 3.9%. Due to steady leasing mitigating minimal moveouts. The chronically low vacancy rate pushed asking rents up 4.5%, ending the quarter at $16.72 PSF.

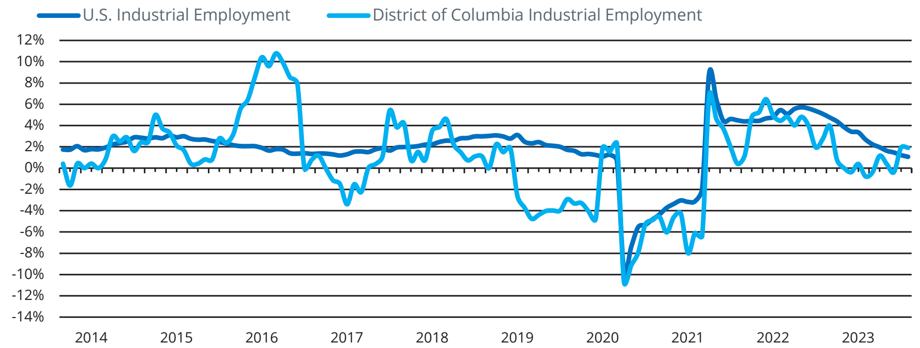
Although economic uncertainty has slowed the overall market, industrial has maintained its footing. The vacancy rate will remain low enough to push rents up, albeit at a slowing pace. The industrial outlook remains bright, with e-commerce fueling demand in the years to come, coupled with advanced manufacturing boosting need for space. This stems from passed legislation, such as the Infrastructure and Investment Jobs Act, as well as the CHIPS and Science Act. Reshoring could also boost demand in the near-term. This trend is expected to accelerate as access to suppliers and speed-to-market has become increasingly more critical than labor cost savings.

ECONOMY

Industrial Job Growth Remains Mild

- 11,400 new jobs were added to the District of Columbia economy during the 12-months ending August 2023, which is well-ahead of the pre-pandemic 5-year average of 9,800. This was driven by the restaurant/bars and social/civic nonprofits.
- Industrial-using jobs added 500 positions during the 12 months ending August 2023, just above the pre-pandemic 5-year average of 300. Most of this gain occurred within the construction sector, as well as the trade/transportation/utilities sector.
- The unemployment rate for the District of Columbia is currently at 5.3% as of July 2023 and averaged 5.4% for the past three months. The rate is up from 4.7% one year ago and is down notably since the peak of 10.4% in April 2020.
- We expect industrial job growth in the District of Columbia to be minimal over the next several years, due to limited industrial space in the District as compared to the surrounding suburban area. Most of the limited growth will occur within construction and consumer services.

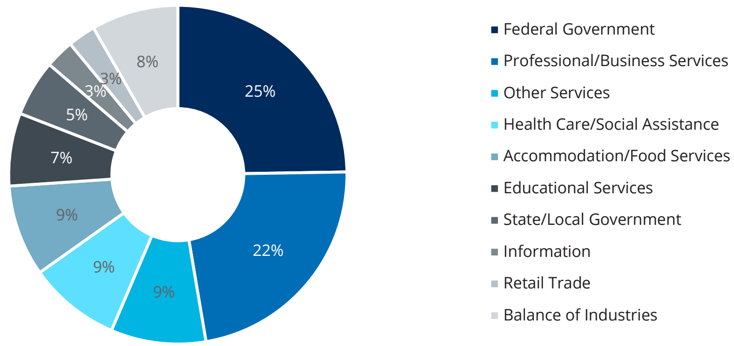
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

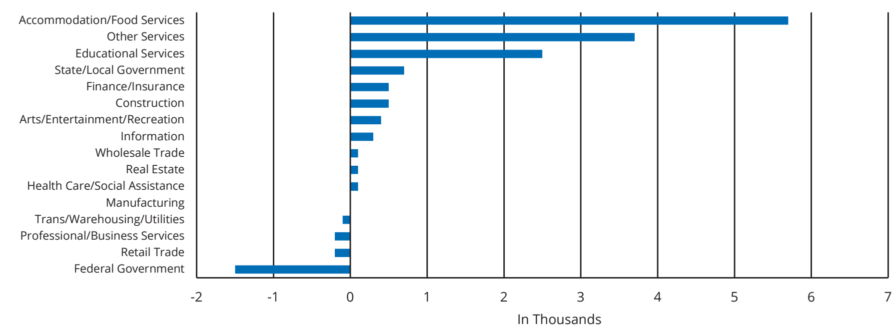
District of Columbia | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



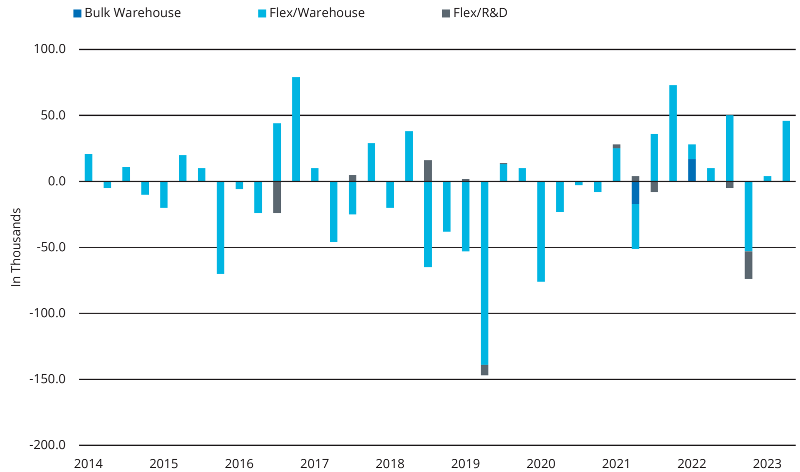
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION AND VACANCY

Net Absorption and Vacancy Remain Steady in Q3

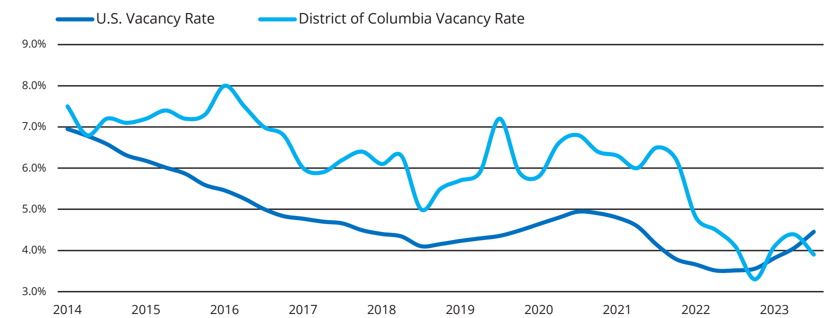
- Net absorption totaled 46,000 SF during the quarter, with year-over-year totaling 20,000 SF.
- The positive net absorption was partly due to National Holistic Healing Center signing for 19,200 SF at 1901-1907 Fairview Ave NE coupled with a couple of smaller moveouts
- The direct vacancy rate decreased to 3.9% this quarter, down from 4.4% the quarter prior, but is down from 4.1% one year ago.
- With the restricted amount of available inventory, coupled with future industrial demolitions, we expect the vacancy rate to stabilize with limited net absorption.

NET ABSORPTION BY PRODUCT TYPE



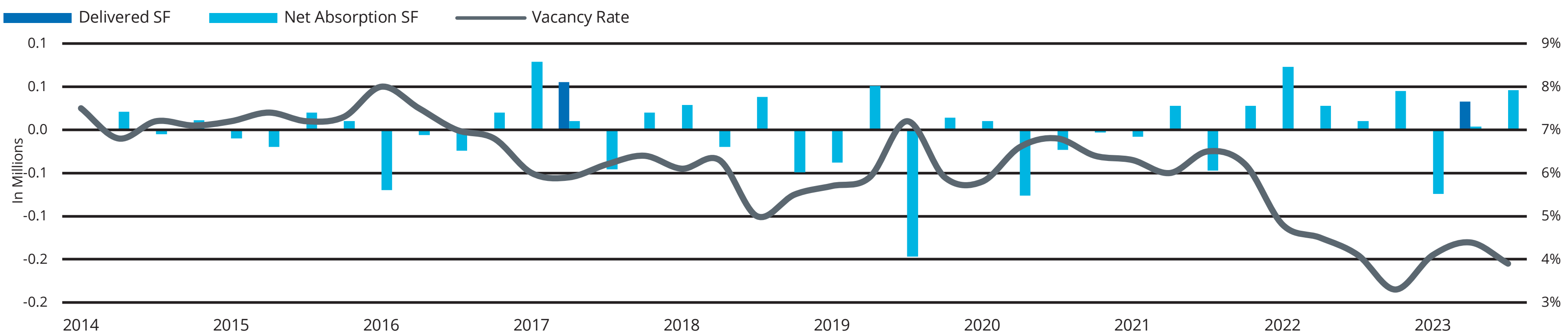
Source: CoStar, Transwestern

DIRECT VACANCY RATE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



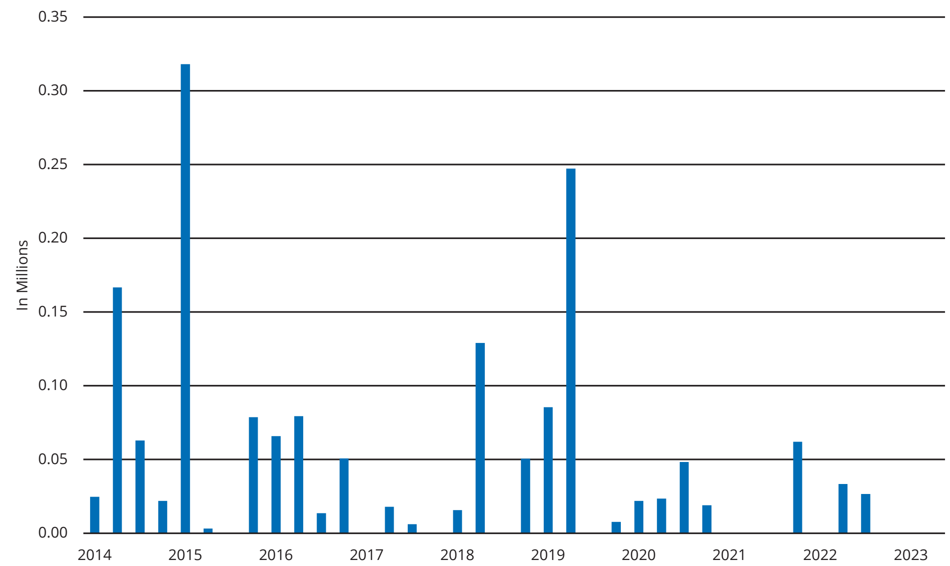
Source: CoStar, Transwestern

UNDER CONSTRUCTION AND RENTAL RATES

Rental Rates Continue to Rise Given Tight Market

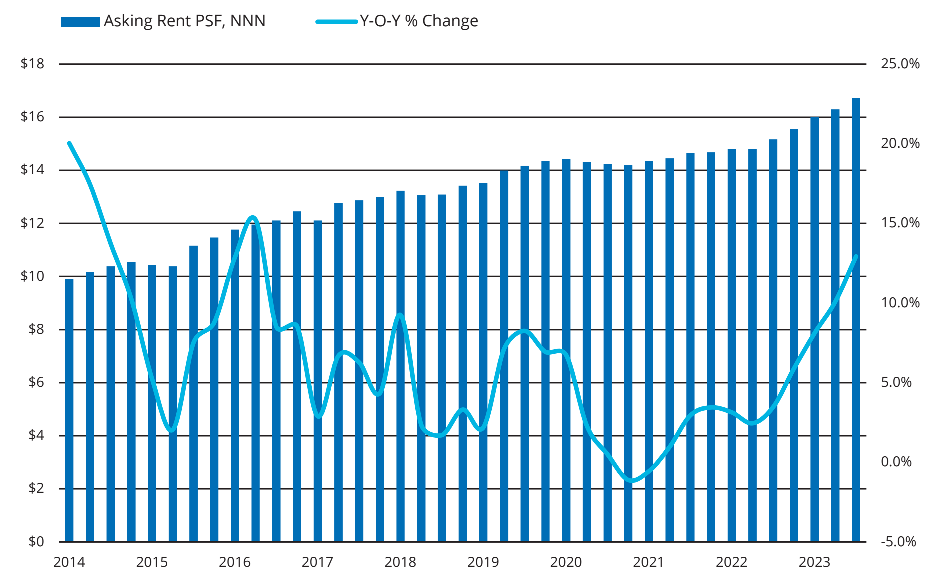
- There are currently no industrial properties under construction in the District of Columbia. We expect the pipeline to remain empty for the short run. We expect demolitions of obsolete industrial product to persist and overall industrial inventory to continue to decrease. Over the past 10 years, a total of 1.6 million SF has been demolished and therefore removed from the inventory. In most cases, multifamily has been built in its place, followed by office.
- Continued delivery of new suburban product could attract select tenants to relocate into the neighboring submarkets for newer facilities, and more efficient production. Successful distribution companies find themselves growing out of their spaces thus needing to find newer, larger product that fits their business needs.
- Asking rents increased 450 basis points during the third quarter of 2023, landing at $16.72 PSF. Over the past year asking rents rose 12.9%, which is healthy, and above the five-year annual average of 4.1%.
- Rent growth remains strong, despite limited market activity, as the vacancy rate remains low enough to support rent increases. As the inventory tightens due in part to demolitions, we expect rents to rise further due to limited quality options and zoning challenges.

DEMOLISHED



Source: CoStar, Transwestern

ASKING RENT



Source: CoStar, Transwestern

MARKET INDICATORS

All Product Types | Q3 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, NNN
BULK WAREHOUSE	203,740	0	0.0%	0.0%	0	0	0	N/A
FLEX/INDUSTRIAL	8,782,766	331,107	3.8%	4.3%	0	46,000	47,000	$16.72
FLEX/R&D	379,735	34,176	9.0%	9.0%	0	0	(27,000)	N/A
TOTAL	**9,366,241**	**365,283**	**3.9%**	**4.4%**	**0**	**46,000**	**20,000**	**$16.72**

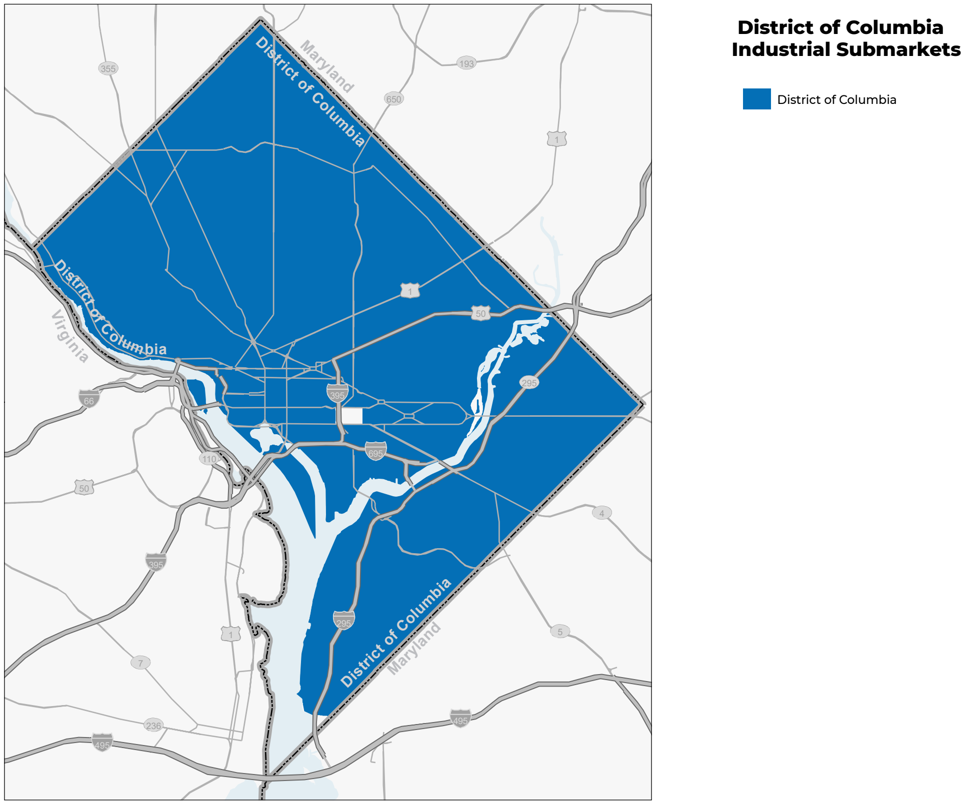
Source: CoStar, Transwestern

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on flex and industrial properties located in the District of Columbia. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com and @ Transwestern.



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